

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF ALTON WATER)	
DISTRICT FOR AN ADJUSTMENT OF RATES)	
PURSUANT TO THE ALTERNATIVE PROCEDURE)	CASE NO. 8914
FOR SMALL UTILITIES)	

O R D E R

On October 11, 1983, Alton Water District ("Alton") filed its application with this Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates would produce additional revenue of \$13,253, an increase of 37 percent. Based on the determination herein Alton has been granted an increase in revenue of \$13,253 annually, the full amount of the requested increase.

No hearing was held in this matter, and accordingly the decision of the Commission is based on information contained in the application, written submissions, annual reports and other documents on file in the Commission's offices.

COMMENTARY

Alton is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky and presently serves approximately 351 customers in Anderson County, Kentucky.

TEST PERIOD

The Commission has adopted the 12-month period ending December 31, 1982, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

Alton proposed several adjustments to revenues and expenses in its application. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Purchased Water Expense

On November 15, 1983, Alton received notice of an increase in the wholesale price of water from its supplier, the City of Lawrenceburg, effective December 1983. Although no adjustment for purchased water expense was proposed by Alton, the Commission has increased Alton's purchased water expense by \$5,228 to reflect the increased purchase price. In determining the pro forma purchased water cost the Commission has applied the current wholesale purchase price to the actual gallons purchased during the test period. The Commission has therefore determined Alton's pro forma purchased water expense to be \$20,773.

Electric Expense

Alton reported actual test-period electric expense of \$2,600. In order to assess the accuracy of the reported level of expense, as well as to determine the adjusted electric expense, the Commission requested and Alton has supplied copies of its

test-period electric bills from Fox Creek RECC and Kentucky Utilities Company. In instances where the bill for a period of the test year was not submitted the Commission requested and received the necessary data directly from the electric supplier. Based upon an analysis of the bills submitted and billing information supplied the Commission has determined Alton's test-period electric expense to be \$2,384.

Alton proposed an adjustment to increase its electric expense by \$400 based upon an estimated 15 percent increase. The Commission has a well established policy of allowing only those changes which are known and measurable in determining a utility's pro forma level of expense. Proposed adjustments thus must be accompanied by documentation sufficient in detail to show the determination of the dollar amount of the change. Examples of such documentation could be: notice of price changes received from suppliers, copies of invoices, board resolutions regarding wage increases, etc. The Commission finds that Alton's proposed electric adjustment is neither known nor measurable and has disallowed it herein.

The Commission has, however, adjusted test-year electric expense to reflect the current rates in effect from Alton's electric suppliers. In determining the pro forma electric expense the Commission has applied the current rates of the electric suppliers to the actual KWH used by Alton during the test year. This results in an adjusted electric expense of \$2,619.

Supplies Expense

Alton has proposed an adjustment to increase its supplies expense by \$100 based upon an estimated 9 percent increase. No documentation was provided which would meet the criterion of a known and measurable adjustment. Therefore, the Commission has disallowed the adjustment for rate-making purposes herein.

Expenses Associated With Future Projects

Alton has requested that the Commission include for rate-making purposes the estimated expenses associated with certain major maintenance projects and to reflect anticipated expense for rental of office space. The maintenance projects included improvements to a pump station and painting the district's standpipe. These projects currently are in the initial planning stages with no set starting or completion dates. In addition, due to the fact that the timing of these projects is uncertain, Alton has been able to supply only rough estimates of the total costs of these projects.

The Commission, in determining a utility's pro forma level of expense, attempts to include all changes that are both known and measurable. In order to meet these criteria a project ordinarily must have advanced beyond the initial planning stage. Generally, it is necessary for a utility to have begun a particular project or have made firm contractual commitments to do so at a definite date in the very near future. In addition, the total expenses involved must be substantiated by firm bid proposals, actual invoices, paid receipts or other documentation in order to be considered for rate-making purposes.

The information that is ordinarily required to meet the known and measurable test with major maintenance projects such as these will include firm starting and completion dates, executed contracts with outside contractors, accurate and complete cost data, engineering data and specifications, and copies of financing documents. In some instances additional data may be required and the project may require that a certificate of convenience and necessity be obtained before construction work begins.

After a review of the information supplied by Alton in support of the future projects the Commission finds that the projected expenses are not sufficiently known or measurable at this time and has not made an adjustment herein to reflect any portion of these costs. However, these costs may be allowed in future rate proceedings where the criteria set out in the preceding paragraphs have been met.

Depreciation Expense

The operating statement of Alton for the test period reflects depreciation expense of \$4,995. It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of the net original cost of plant in service less contributions in aid of construction. Alton's balance sheet reflects contributions in aid of construction of \$49,117 at the end of the test year which is approximately 27 percent of the total cost of utility plant in service. In determining the pro forma depreciation expense the Commission has utilized the level of plant in service at the end of the test year less contributions

in aid of construction. This results in allowable annual depreciation expense of \$3,662.

Rate Case Expense

At the Commission's request Alton supplied an estimate of \$964 for the costs involved in applying for this rate increase. The total projected expense of \$964 is below the level of \$1,000 which the Commission considers reasonable for most ARF cases. Although no adjustment for rate case expense was proposed, the Commission has included a provision of \$321, based upon a 3-year amortization of the \$964 estimated total cost.

The Commission finds that Alton's adjusted test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 33,924	\$ -	\$ 33,924
Operating Expenses	37,383	4,235	41,618
Operating Income	\$ <3,459>	\$ <4,235>	\$ <7,694>
Other Income	1,296	-	1,296
Other Deductions	3,560	<240>	3,320
Net Income	<u>\$ <5,723></u>	<u>\$ <3,995></u>	<u>\$ <9,718></u>

REVENUE REQUIREMENTS

The Commission is of the opinion that the adjusted operating loss is clearly unjust and unreasonable. The Commission finds the debt-service coverage method to be a fair, just and reasonable method of determining revenue requirements in this case and adequate to allow Alton to pay its operating expenses, meet its debt service requirements and maintain a reasonable surplus.

The Commission has determined Alton's revenue requirement to be \$48,309¹ based upon a 1.2X debt service coverage which would require an increase in revenue of \$14,385 annually. The Commission therefore finds that Alton's requested increase of \$13,253 is reasonable and has granted Alton the full amount of its requested increase.

RATE DESIGN

Alton presently bills its customers on four different rate schedules containing varying usage and rate levels. Alton proposed to combine the four existing schedules and bill all customers on a single rate schedule.

After reviewing the information filed in this case the Commission agrees that there are inequities in the present rate schedules and that to combine the present four schedules into one would be more fair to all customers.

OTHER CHARGES

Alton has a different service connection charge (tap-on fee) for each class of customer, but has proposed a single connection charge of \$250 for all 3/4-inch connections. The Commission is of the opinion that \$250 is a reasonable charge to be made for 3/4-inch service connections and should be approved.

1	Revenue Requirements =	
	Adjusted Operating Expenses	\$41,618
	+ Debt Service and Coverage Allowed	7,987
	Total	<u>\$49,605</u>
	- Interest Income	1,296
	Revenue Required	<u><u>\$48,309</u></u>

SUMMARY

The Commission, after consideration of the record and being advised, is of the opinion and finds that:

1. The rates and charges proposed by Alton and contained in Appendix A are the fair, just and reasonable rates to be charged by Alton in that they will produce gross annual revenue of \$47,177.

2. The proposed charge for 3/4-inch service connections is reasonable and should be approved.

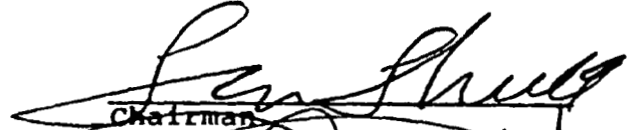
IT IS THEREFORE ORDERED that the rates proposed by Alton and contained in Appendix A be and they hereby are approved as the fair, just and reasonable rates and charges to be charged by Alton for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the charge for 3/4-inch service connections be and it hereby is approved for service connections made on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Alton shall file its revised tariff sheets setting forth the rates approved herein and its rules and regulations governing the provision of service.

Done at Frankfort, Kentucky, this 12th day of March, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8914 DATED MARCH 12,
1984.

The following rates are prescribed for customers in the area served by Alton Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

RATES: Monthly

First	2,000 gallons	\$ 6.00 Minimum Bill
Next	2,000 gallons	2.00 per 1,000 gallons
Next	2,000 gallons	1.60 per 1,000 gallons
Next	4,000 gallons	1.20 per 1,000 gallons
Over	10,000 gallons	1.00 per 1,000 gallons

Connection Charge

3/4-Inch Connection	\$250.00
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